

Senate File 2208 - Introduced

SENATE FILE 2208

BY CHAPMAN and ANDERSON

A BILL FOR

1 An Act relating to state financing involving the state
2 general fund expenditure limitation by revising calculation
3 requirements for the limitation, increasing reserve fund
4 balances, creating a safety net fund, creating an Iowa
5 personal income tax rate reduction fund, making transfers,
6 and providing for related state personal income tax rate
7 reductions, and including effective and applicability dates.
8 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

1 Section 1. Section 8.54, subsection 1, Code 2016, is amended
2 by adding the following new paragraphs:

3 NEW PARAGRAPH. *Ob.* "*Iowa wage and salary component*" means
4 the wage and salary component of the quarterly state personal
5 income table for Iowa issued by the bureau of economic analysis
6 of the United States department of commerce. For the purposes
7 of this paragraph and paragraph "*c*", "*quarter*" means the
8 calendar year quarter identified in the table issued by the
9 bureau.

10 NEW PARAGRAPH. *c.* "*Wage and salary growth factor*" means
11 one-half of the percentage increase, if any, in the average
12 of the second quarter Iowa wage and salary component issued
13 immediately prior to the meeting of the revenue estimating
14 conference held by December 15 in accordance with section
15 8.22A, subsection 3, and the Iowa wage and salary components
16 for the three quarters immediately preceding such second
17 quarter component, as compared to the average of the four
18 quarters of the Iowa wage and salary component immediately
19 preceding the oldest quarter used to calculate the first
20 average.

21 Sec. 2. Section 8.54, subsection 2, Code 2016, is amended
22 to read as follows:

23 2. *a.* There is created a state general fund expenditure
24 limitation for each fiscal year calculated as provided in
25 this section. An expenditure limitation shall be used for
26 the portion of the budget process commencing on the date the
27 revenue estimating conference agrees to a revenue estimate for
28 the following fiscal year in accordance with section 8.22A,
29 subsection 3, and ending with the governor's final approval
30 or disapproval of the appropriations bills applicable to that
31 fiscal year that were passed prior to July 1 of that fiscal
32 year in a regular or extraordinary legislative session.

33 *b.* A wage and salary growth factor for the following
34 fiscal year shall be calculated jointly by the department of
35 management and the legislative services agency for use in the

1 budget process for the following fiscal year in accordance with
2 this section. The wage and salary growth factor calculation
3 for the following fiscal year shall be issued concurrently
4 with the meeting of the revenue estimating conference held by
5 December 15 in which the estimates used to develop the adjusted
6 revenue estimate for the following fiscal year are agreed to
7 by the conference.

8 Sec. 3. Section 8.54, subsection 3, Code 2016, is amended
9 to read as follows:

10 3. Except as otherwise provided in this section, the state
11 general fund expenditure limitation for a fiscal year shall be
12 the lesser of the following amounts:

13 a. ~~ninety-nine~~ Ninety-nine percent of the adjusted revenue
14 estimate for the fiscal year.

15 b. The percentage derived from adding to one hundred percent
16 the wage and salary growth factor calculated for the fiscal
17 year times the final state general fund expenditure limitation
18 for the prior fiscal year.

19 Sec. 4. Section 8.54, subsection 5, Code 2016, is amended by
20 striking the subsection.

21 Sec. 5. Section 8.55, subsection 2, Code 2016, is amended
22 to read as follows:

23 2. The maximum balance of the fund is the amount equal to
24 two and one-half percent of the adjusted revenue estimate for
25 the fiscal year. If the amount of moneys in the Iowa economic
26 emergency fund is equal to the maximum balance, moneys in
27 excess of this amount shall be distributed as follows in the
28 following order:

29 a. The initial excess, not to exceed the amount necessary
30 for the safety net fund to reach its maximum balance of two
31 percent of the adjusted revenue estimate for the fiscal year,
32 shall be transferred to the safety net fund.

33 ~~a.~~ b. The remainder of the excess, not to exceed the first
34 sixty million dollars of the difference between the actual net
35 revenue for the general fund of the state for the fiscal year

1 and the adjusted revenue estimate for the fiscal year, shall be
2 transferred to the taxpayers trust fund.

3 ~~b.~~ c. The remainder of the excess, if any, shall be
4 transferred to the ~~general fund of the state~~ Iowa personal
5 income tax rate reduction fund created in section 8.57G.

6 Sec. 6. NEW SECTION. **8.57G Iowa personal income tax rate**
7 **reduction fund.**

8 1. An Iowa personal income tax rate reduction fund is
9 created. The fund shall be separate from the general fund of
10 the state and the balance in the fund shall not be considered
11 part of the balance of the general fund of the state. The
12 moneys credited to the fund are not subject to section 8.33 and
13 shall not be transferred, used, obligated, appropriated, or
14 otherwise encumbered except as provided in this section.

15 2. *a.* Moneys in the Iowa personal income tax rate reduction
16 fund shall only be used pursuant to appropriations or transfers
17 made by the general assembly for tax relief.

18 *b.* No later than June 30 in each fiscal year the entire
19 balance of the Iowa personal income tax rate reduction fund, if
20 any, is transferred to the general fund of the state.

21 *c.* The moneys transferred to the general fund of the state
22 in accordance with paragraph "b" shall not be considered new
23 revenue for purposes of the state general fund expenditure
24 limitation under section 8.54 but instead shall be considered
25 as replacing a like amount included in the expenditure
26 limitation for the fiscal year in which the transfer is made.

27 3. *a.* Moneys in the Iowa personal income tax rate reduction
28 fund may be used for cash flow purposes during a fiscal year
29 provided that any moneys so allocated are returned to the fund
30 by the end of that fiscal year.

31 *b.* Except as provided in section 8.58, the Iowa personal
32 income tax rate reduction fund shall be considered a special
33 account for the purposes of section 8.53 in determining the
34 cash position of the general fund of the state for the payment
35 of state obligations.

1 4. Notwithstanding section 12C.7, subsection 2, interest or
2 earnings on moneys deposited in the Iowa personal income tax
3 rate reduction fund shall be credited to the fund.

4 Sec. 7. NEW SECTION. **8.57H Safety net fund.**

5 1. A safety net fund is created. The fund shall be separate
6 from the general fund of the state and the balance in the fund
7 shall not be considered part of the balance of the general fund
8 of the state. The moneys credited to the fund are not subject
9 to section 8.33 and shall not be transferred, used, obligated,
10 appropriated, or otherwise encumbered except as provided in
11 this section.

12 2. Moneys in the safety net fund shall only be used pursuant
13 to appropriations or transfers made by the general assembly
14 to augment appropriations made for important education,
15 employment, health, human services, and other programs to aid
16 individuals and families with low income.

17 3. *a.* Moneys in the safety net fund may be used for cash
18 flow purposes during a fiscal year provided that any moneys so
19 allocated are returned to the fund by the end of that fiscal
20 year.

21 *b.* Except as provided in section 8.58, the safety net fund
22 shall be considered a special account for the purposes of
23 section 8.53 in determining the cash position of the general
24 fund of the state for the payment of state obligations.

25 4. Notwithstanding section 12C.7, subsection 2, interest
26 or earnings on moneys deposited in the safety net fund shall
27 be credited to the fund.

28 Sec. 8. Section 8.58, Code 2016, is amended to read as
29 follows:

30 **8.58 Exemption from automatic application.**

31 1. ~~To the extent that moneys appropriated under section~~
32 ~~8.57 do not result in moneys being credited to the general fund~~
33 ~~under section 8.55, subsection 2, moneys~~ Moneys appropriated
34 under section 8.57 and moneys contained in the cash reserve
35 fund, rebuild Iowa infrastructure fund, environment first

1 fund, Iowa economic emergency fund, taxpayers trust fund,
 2 ~~and state bond repayment fund, Iowa personal income tax rate~~
 3 ~~reduction fund, and safety net fund~~ shall not be considered
 4 in the application of any formula, index, or other statutory
 5 triggering mechanism which would affect appropriations,
 6 payments, or taxation rates, contrary provisions of the Code
 7 notwithstanding. To the extent that moneys projected to be
 8 transferred from the Iowa personal income tax rate reduction
 9 fund to the general fund of the state pursuant to section 8.57G
 10 replace revenues reduced pursuant to section 422.5, subsection
 11 1, paragraph "k", such moneys reduction shall not be considered
 12 by such arbitrator or in such negotiations in the application
 13 of such mechanisms that affect appropriations, payments, or
 14 taxation rates.

15 2. ~~To the extent that moneys appropriated under section~~
 16 ~~8.57 do not result in moneys being credited to the general fund~~
 17 ~~under section 8.55, subsection 2, moneys~~ Moneys appropriated
 18 under section 8.57 and moneys contained in the cash reserve
 19 fund, rebuild Iowa infrastructure fund, environment first
 20 fund, Iowa economic emergency fund, taxpayers trust fund,
 21 ~~and state bond repayment fund, Iowa personal income tax rate~~
 22 ~~reduction fund, and safety net fund~~ shall not be considered
 23 by an arbitrator or in negotiations under chapter 20. To the
 24 extent that moneys projected to be transferred from the Iowa
 25 personal income tax rate reduction fund to the general fund of
 26 the state pursuant to section 8.57G replace revenues reduced
 27 pursuant to section 422.5, subsection 1, paragraph "k", such
 28 moneys reduction shall not be considered by such arbitrator or
 29 in such negotiations in the application of such mechanisms that
 30 affect appropriations, payments, or taxation rates.

31 Sec. 9. Section 422.5, subsection 1, Code 2014, is amended
 32 by adding the following new paragraph:

33 NEW PARAGRAPH. k. For the tax year beginning January 1
 34 immediately preceding July 1 of any fiscal year in which a
 35 transfer is made to the Iowa personal income tax rate reduction

1 fund pursuant to section 8.57G, subsection 2, paragraph "b",
 2 each rate in paragraphs "a" through "i" shall be reduced, and
 3 rounded to the nearest one-hundredth of one percent, by the
 4 percentage that the amount transferred during the fiscal year
 5 to the Iowa personal income tax rate reduction fund bears
 6 to the actual net revenue for the general fund of the state
 7 for the fiscal year immediately preceding the fiscal year in
 8 which such transfer was made to the Iowa personal income tax
 9 rate reduction fund. A tax rate reduction provided in this
 10 paragraph only applies to the tax year which is the subject
 11 of the rate reduction and shall not effect tax rates in any
 12 successive tax year. The department shall draft the income tax
 13 form for any tax year in which rates are reduced under this
 14 paragraph to provide information to taxpayers necessary to
 15 calculate the tax due.

16 Sec. 10. Section 422.5, subsection 2, paragraph a, Code
 17 2016, is amended to read as follows:

18 a. There is imposed upon every resident and nonresident
 19 of this state, including estates and trusts, the greater of
 20 the tax determined in [subsection 1](#), paragraphs "a" through "j"
 21 "k", or the state alternative minimum tax equal to seventy-five
 22 percent of the maximum state individual income tax rate for the
 23 tax year, rounded to the nearest one-tenth of one percent, of
 24 the state alternative minimum taxable income of the taxpayer as
 25 computed under [this subsection](#).

26 Sec. 11. Section 422.11B, Code 2016, is amended to read as
 27 follows:

28 **422.11B Minimum tax credit.**

29 1. a. There is allowed as a credit against the tax
 30 determined in [section 422.5, subsection 1](#), paragraphs "a"
 31 through "j" "k" for a tax year an amount equal to the minimum
 32 tax credit for that tax year.

33 b. The minimum tax credit for a tax year is the excess,
 34 if any, of the net minimum tax imposed for all prior tax
 35 years beginning on or after January 1, 1987, over the amount

1 allowable as a credit under [this section](#) for those prior tax
2 years.

3 2. a. The allowable credit under [subsection 1](#) for a tax
4 year shall not exceed the excess, if any, of the tax determined
5 in [section 422.5, subsection 1](#), paragraphs "[a](#)" through "[j](#)" "[k](#)"
6 over the state alternative minimum tax as determined in section
7 422.5, subsection 2.

8 b. The net minimum tax for a tax year is the excess, if any,
9 of the tax determined in [section 422.5, subsection 2](#), for the
10 tax year over the tax determined in section 422.5, subsection
11 1, paragraphs "[a](#)" through "[j](#)" "[k](#)" for the tax year.

12 Sec. 12. Section 422.16, subsection 1, paragraph a, Code
13 2016, is amended to read as follows:

14 a. Every withholding agent and every employer as defined
15 in [this chapter](#) and further defined in the Internal Revenue
16 Code, with respect to income tax collected at source, making
17 payment of wages to a nonresident employee working in Iowa,
18 or to a resident employee, shall deduct and withhold from the
19 wages an amount which will approximate the employee's annual
20 tax liability on a calendar year basis, calculated on the
21 basis of tables to be prepared by the department and schedules
22 or percentage rates, based on the wages, to be prescribed by
23 the department, and calculated without regard to the rate
24 reductions provided in section 422.5, subsection 1, paragraph
25 "k". Every employee or other person shall declare to the
26 employer or withholding agent the number of the employee's
27 or other person's personal allowances to be used in applying
28 the tables and schedules or percentage rates. However, no
29 greater number of allowances may be declared by the employee
30 or other person than the number to which the employee or other
31 person is entitled except as allowed under sections 3402(m)(1)
32 and 3402(m)(3) of the Internal Revenue Code and as allowed
33 for the child and dependent care credit provided in section
34 422.12C. The claiming of allowances in excess of entitlement is
35 a serious misdemeanor.

1 Sec. 13. EFFECTIVE DATE. This Act takes effect July 1,
2 2017.

3 Sec. 14. APPLICABILITY. The following provisions of this
4 Act are first applicable to calculate the state general fund
5 expenditure limitation for the fiscal year beginning July 1,
6 2017:

7 1. The sections amending section 8.54.

8 2. The sections amending section 8.55.

9 EXPLANATION

10 The inclusion of this explanation does not constitute agreement with
11 the explanation's substance by the members of the general assembly.

12 This bill relates to the state general fund expenditure
13 limitation by revising calculation requirements for the
14 limitation, creating a safety net fund, creating an Iowa
15 personal income tax rate reduction fund, making transfers,
16 and providing for related state personal income tax rate
17 reductions.

18 Code section 8.54, relating to the state general fund
19 expenditure limitation, is amended to provide an additional
20 method for calculating the limitation. Under current law,
21 the limitation is 99 percent of the adjusted revenue estimate
22 for the following fiscal year based on an estimate approved
23 by the revenue estimating conference in a meeting held by
24 December 15. The new calculation method in the bill is based
25 on the growth in the average wage and salary component of the
26 quarterly state personal income table for Iowa issued by the
27 bureau of economic analysis of the United States department of
28 commerce. Under the new method, the department of management
29 and the legislative services agency are directed to apply the
30 component issued for the quarters of a two-year period to
31 jointly calculate a wage and salary growth factor percentage.
32 One-half of this percentage amount, combined with 100 percent,
33 is applied to the amount of the state general fund expenditure
34 limitation for the prior fiscal year (fiscal year in progress).
35 The lesser amount identified by the two methods is required to

1 be used as the state general fund expenditure limitation in the
2 budget process for the following fiscal year.

3 Under current law, if a surplus is anticipated for the
4 general fund of the state at the close of a fiscal year, any
5 excess remaining, after the surplus is applied to bring state
6 reserve funds to their maximum balances, is transferred back
7 to the state general fund for the following fiscal year. The
8 original state general fund expenditure limitation for that
9 following fiscal year is required to be readjusted to reflect
10 the amount of excess anticipated to be transferred. The bill
11 repeals the current law requirements for the excess in Code
12 sections 8.54(5) and 8.55(2) and instead requires the excess
13 to be transferred in the following order: first to the safety
14 net fund created by the bill, up to the maximum balance for
15 the safety net fund which is established as 2 percent of the
16 adjusted revenue estimate for the fiscal year; next, to the
17 taxpayer trust fund, up to the maximum amount specified in
18 current law; and the entire remainder to the personal income
19 tax rate reduction fund created by the bill.

20 New Code section 8.57G creates an Iowa personal income tax
21 reduction fund separate from the general fund. Moneys in the
22 fund can only be used pursuant to appropriations or transfers
23 made by the general assembly for tax relief and for temporary
24 cash flow purposes.

25 New Code section 8.57H creates a safety net fund separate
26 from the general fund. Moneys in the fund can only be used
27 pursuant to appropriations or transfers made by the general
28 assembly to augment appropriations made for important
29 education, employment, health, human services, and other
30 programs to aid individuals and families with low income.

31 Moneys in the new funds are treated similarly to other
32 reserve funds under Code section 8.58 and exempted from
33 automatic application in triggering mechanisms which affect
34 appropriations, payments, or taxation rates and cannot be
35 considered by an arbitrator or in collective bargaining

1 negotiations under Code chapter 20.

2 Moneys transferred to the Iowa personal income tax rate
3 reduction fund are required to be transferred to the general
4 fund of the state by the end of the same fiscal year and treated
5 as a replacement of revenue resulting from the individual
6 income tax rate reduction provided for in the bill.

7 For tax years beginning January 1 immediately preceding July
8 1 of a fiscal year in which a transfer is made to the Iowa
9 personal income tax rate reduction fund, the rates for each of
10 the nine tax brackets of the individual income tax are required
11 to be reduced by the percentage that the amount transferred
12 to the fund bears to the state's actual net revenue for the
13 preceding fiscal year. Tax rate reductions only apply for one
14 tax year and do not affect tax rates in any successive tax
15 year. Withholding agents and employers are prohibited from
16 factoring in such an individual income tax rate reduction in
17 their calculation of appropriate employee withholding amounts
18 during a tax year. Under the bill, the tax year beginning
19 January 1, 2018, is the first tax year to which the individual
20 income tax rate reduction may apply.

21 The bill takes effect July 1, 2017. However, the provisions
22 affecting calculation of the state general fund expenditure
23 limitation are first applicable for the budget process for the
24 fiscal year beginning July 1, 2017 (FY 2017-2018).